HUMBLE OIL & REFINING COMPANY
(A TEXAS INSTITUTION)
AND SUBSIDIARY

ANNUAL REPORT
1938
ANNUAL REPORT

TO THE

STOCKHOLDERS

OF

Humble Oil & Refining Company
AND SUBSIDIARY

FOR THE YEAR ENDED
DECEMBER 31, 1938
To The Stockholders:

The Annual Report of the Company for the year 1938 differs somewhat from that of previous years, both in form and content. The Balance Sheet has been changed, particularly by reclassifying as Deferred Accounts Receivable items of approximately $3,000,000.00 which in 1937 were treated as Current Accounts Receivable. In addition to the regular statements, the Report contains comments of the management on the year’s operations. It is believed that this Report will enable a better understanding of the Company’s operations and its position at the end of the year.

NET INCOME

Operations of the Company and its subsidiary, Humble Pipe Line Company, resulted in a net income for the year of $35,800,353.00, or $3.98 per share. This compares with a net income of $46,924,001.00, or $5.21 per share, in 1937. The decrease of $11,123,648.00 in net income for 1938 was due primarily to material reductions in the volume of oil produced, the price of which was substantially reduced in October, and to material reductions in the volume of oil transported, that moving during the larger part of the last quarter being at substantially lower pipe line tariff rates.

DIVIDENDS

It is gratifying to note that the Company was able to maintain in 1938 the same dividend as paid in 1937. The payment was $2.00 per share amounting to $17,975,680.00.

FINANCIAL

The improvement in the Company’s working capital position resulted from long term borrowing during the year. The money borrowed was used to pay short term loans and to help meet current capital expenditure
requirements. A more detailed account of cash transactions for the year is shown in the following statement of cash resources and their utilization.

The cash resources were as follows:
The net profit for the year was $35,800,353.81
To this have been added the charges to income which did not require cash, such for example as, provisions for depreciation, depletion, amortization, and properties, plant and equipment written-off 

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Cash receipts from operations exceeded cash disbursements for operations by 63,075,718.26

In addition to the above, the Company borrowed money on long term notes of $40,000,000.00. Of this amount $25,332,406.25 was used to pay short term indebtedness incurred in 1936 and 1937, leaving a net addition to cash of 14,667,593.75

Cash was also provided through a decrease in working assets and other miscellaneous assets in the amount of 1,750,399.48

There was a cash balance in banks and on hand at January 1, 1938, of 6,912,504.17

Cash resources available, after payment and accrual of operating costs, were 86,406,215.66

These funds were utilized as follows:
During the year there were new additions to properties, plant and equipment costing $55,544,414.24
Less: Charges not requiring funds 3,595,741.14
Therefore, the cash utilized for capital expenditures was $51,948,673.10
Dividends paid amounted to 17,975,680.00
The result was a total cash expenditure, for other than operating cost, of 69,924,353.10
The cash remaining on hand, in banks and out on demand loans at December 31, 1938, was 16,481,862.56
Total cash resources, as above, accounted for 86,406,215.66
INVENTORIES

Inventories of crude oil and manufactured products decreased 1,075,169 barrels during the year. Balance sheet values of inventories are based on "Cost—First In, First Out." In determining cost, interdepartmental profits have been eliminated but intercompany profits have not been eliminated as it is impracticable to do so. The aggregate cost of inventories at December 31, 1938 was 7.95% less than the aggregate market value.

FIXED (CAPITAL) ASSETS

Gross additions to property accounts during the year amounted to $55,544,414.00. Broadly, the funds used in making these additions were derived from three sources; namely, capital recovered through depletion and depreciation, profits derived from operations, and proceeds of long-term notes sold during the year.

PRODUCING, PURCHASING, AND TRANSPORTATION

The Company produced, in 1938, 57,866,000 barrels of crude oil, of which its part was 46,364,000 barrels, a daily average of 127,025 barrels. This compares with 63,563,000 barrels produced in 1937, of which 50,611,000 barrels was the Company's part, a daily average of 138,660 barrels. The Company is now operating 6,394 oil wells, an increase of 726 wells over 1937, and is interested in 2,383 wells operated by others. During 1938 the Company completed 907 wells, of which 109 were dry holes, as compared to 1,271 completions with 119 dry holes in 1937. Part-interest wells drilled by others during the year numbered 130 as compared with 133 for 1937.

The Company purchased, during the year, 81,170,000 barrels of crude, a daily average of 222,380 barrels. This compares with total purchases in 1937 of 83,208,000 barrels, a daily average of 227,970. Crude oil handled by Humble Pipe Line Company totaled 139,970,000 barrels, a daily average of 383,480. This compares with 151,840,000 barrels handled in 1937 or an average of 416,000 barrels per day.

The reduction in volume of crude produced, purchased, and handled by the Company in 1938 as compared with 1937 was the result of a cur-
requirements. A more detailed account of cash transactions for the year is shown in the following statement of cash resources and their utilization.

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The reduction in volume of crude produced, purchased, and handled by the Company in 1938 as compared with 1937 was the result of a cur-
tailment of production under the proration orders of the conservation agencies in the states in which we operate. In 1937 production for the country was at such a rate as to result in accumulations of inventory. In 1938 the production for the country was curtailed to the extent that approximately 34,000,000 barrels of crude were withdrawn from storage. This curtailment program, carried out in the effort to balance supply and demand, operated to reduce the volume of oil produced, purchased, and handled by the Company in spite of the number of wells drilled and the net additions to crude oil reserves.

EXPLORATION ACTIVITIES

We have continued our geological and geophysical exploration work during the year. The discovery of the Kelsey, Navarro Crossing, and Noodle Oil Fields, and Willow Springs Gas Field, together with the developments in the Cedar Point, Galveston Bay, Lovell Lake, East White Point, Griffin, and Wasson areas, and the acquisition of the West properties at Webster (Friendswood) and Clear Lake have added substantially to our reserves during the year.

MANUFACTURING

Refining operations were increased during the year. Crude runs totaled 56,592,000 barrels, an average of 155,050 barrels per day as compared with 53,490,000 barrels, an average of 146,550 barrels per day in 1937. These increased operations were carried on without increasing our inventories of refined products.

New equipment has been installed at Baytown for the production of a selected polymer gasoline for ultimate use as a blending agent in aviation gasoline. In addition, it also was found possible to adapt some old equipment to high octane aviation blending agent production. The materials from these two sources will permit furnishing greatly increased quantities of 100 octane aviation gasoline hereafter.

Improvements at Ingleside Refinery have increased the capacity of that plant to 26,000 barrels of crude per day.

During the year our natural gasoline production amounted to 42,452,700 gallons with approximately 31,475,000 gallons of by-products, principally
butane and propane. Combined deliveries of natural gas by the Pledger system and the Tomball system amounted to almost twelve billion cubic feet.

RETAIL MARKETING

The Company is engaged in retail marketing in Texas only. The volume of business increased 6.99% over 1937; the greater part of this increase was in gasoline sales. Sales of aviation gasoline increased 27.35%, the largest percentage increase in any sales product.

The sales department has continued in its effort to effect a higher standard of operating efficiency, salesmanship, and attractiveness of stations; and it is believed that Humble stations are increasing in popularity daily. At the close of the year there were in operation 126 bulk stations and 260 service stations, two more bulk stations and 22 fewer service stations than at the close of 1937. The 22 service stations were either closed permanently or leased to dealers.

TAXES

Taxes paid and accrued by the Company in 1938, exclusive of gasoline and lubricating oil taxes added to the price of products, amounted to $11,644,140.00 as compared with $11,405,080.00 for 1937. Total taxes for 1938 including gasoline and lubricating oil taxes amounted to $16,317,520.00 as compared with $15,875,119.00 in 1937.

PERSONNEL

At the end of the year, the number of employees of the Humble Oil & Refining Company and Humble Pipe Line Company was 13,235 as compared with 13,472 at the end of 1937. The total payroll of both companies for the year amounted to $28,694,567.00, and sales agents' commissions amounted to $1,968,031.00. This compares with a payroll of $27,978,099.00 and sales agents' commissions of $1,923,022.00 for the year 1937. Employees Welfare Expenses, consisting of Social Security Taxes, contributions to Employees Annuity and Thrift Plan, Free Death Benefits, Sickness and Accident Benefits, Termination Allowances, Vaca-
tions, etc., totaled $6,451,645.00 for the year as compared with $5,905,708.00 for 1937.

The Companies have continued the policy begun years ago of assisting their employees in a systematic savings program, looking to economic security in old age. Employees' appreciation of this policy is evidenced in the increase, during 1938, in the number of employee stockholders and in the number of those participating in the Annuity and Thrift Plan. Of the 12,668 employees who are eligible, 12,080 or 95% are participating in the Plan, an increase of 5% during the year. Employees' contributions to the Plan during the year totaled $2,422,604.00. Company contributions, both regular and additional, totaled $3,122,332.00.

**CONCLUSION**

The management wishes to express appreciation and commendation for the splendid work and cooperation of the organization and gratitude for the confidence and support of the stockholders.

By Order of the Board,

R. L. BLAFFER,  
*Chairman*

H. C. WIESS,  
*President*
HUMBLE OIL & REFINING COMPANY AND SUBSIDIARY  
CONSOLIDATED INCOME ACCOUNT  
For Year Ended December 31, 1938

GROSS OPERATING INCOME:
Sales of Petroleum and Its Products ... $199,995,621.51
Sales of Other Merchandise ...... 565,620.27
Other Gross Operating Income ... 4,897,051.64 $205,458,293.42

OPERATING CHARGES:
Costs, Operating, and General Expenses .......... $129,434,521.54
*Taxes .................. 11,167,422.10 140,601,943.64
Net Operating Income Before Depreciation, Depletion, and Abandonments ................. $64,856,349.78
Depletion and Surrendered Leases $6,152,156.21
Depreciation, Retirements, and Other Amortization .......... 21,123,208.24 27,275,364.45

NET OPERATING INCOME .......... $37,580,985.33
NON-OPERATING LOSS (Net) .......... 870,224.53
INCOME BEFORE INTEREST CHARGES ................. 36,710,760.80
INTEREST CHARGES ............... 910,406.99
NET PROFIT ACCRUED TO CORPORATION .......... $35,800,353.81

CONSOLIDATED EARNED SURPLUS ACCOUNT  
For Year Ended December 31, 1938

EARNED SURPLUS, 
DECEMBER 31, 1937 .......... $102,617,191.22
NET PROFIT FOR YEAR ...... 35,800,353.81
TOTAL .................. 138,417,545.03

ADJUSTMENT OF EARNED SURPLUS (Net) ............... $333,193.58
DIVIDENDS PAID .............. 17,975,680.00 18,308,873.58
EARNED SURPLUS, 
DECEMBER 31, 1938 .......... $120,108,671.45

*In addition to the amount of taxes shown above, there was paid (or accrued) for State gasoline, Federal excise, and social security, etc. taxes the sum of $4,673,380.90.
Note: Interdepartmental profits and interdepartmental and intercompany transactions have been excluded. Intercompany profits included in inventories have not been eliminated, as it is impracticable to do so.
HUMBLE OIL & REFINING
Company and Subsidiary
Consolidated Balance Sheet
as at December 31, 1938

ASSETS

CURRENT AND WORKING ASSETS:
Cash .............................................. $10,366,121.83
Demand Loans Receivable .............. 6,115,740.73
Notes Receivable ......................... 205,779.78
Accounts Receivable (Less reserves) .... 11,018,618.74
Inventories:
  Crude Oil (at cost)* .................... $13,213,185.49
  Refined Products (at cost) .......... 11,504,786.54
  Other Merchandise (at cost) ........ 262,061.98
  Materials and Supplies (at cost or less)  5,166,407.33
Total Inventories ...................... 30,146,441.34

STOCKS AND BONDS OF CORPORATIONS (at cost or less)
(Incl. 12,160 shares of Company's own capital stock) ........ 386,015.45

LONG-TERM NOTES, MORTGAGES, AND DEFERRED ACCOUNTS RECEIVABLE .............. 7,613,689.44

SPECIAL DEPOSITS AND FUNDS ........ 30,693.65

FIXED (CAPITAL) ASSETS:
  Lands, Leases and Easements, Rights, Plant and Equipment, Incomplete Construction, and Miscellaneous Property .... 451,865,186.34

LESS RESERVES FOR:
  Depreciation, Depletion, and Amortization ...................... 156,424,302.75

PREPAID AND DEFERRED CHARGES .............. 2,246,292.24

TOTAL ASSETS ................................ $363,570,276.79

*Interdepartmental profits have been eliminated but intercompany profits have not been eliminated in determining costs of inventories as it is impracticable to do so. The aggregate cost of crude oil, refined products and other merchandise was 7.95% less than the aggregate market value thereof at December 31, 1938.

LIABILITIES

CURRENT LIABILITIES:
Oil and Gas Accounts Payable ............. $ 8,694,302.56
Other Accounts Payable ................ 7,353,472.95
Long-Term Debt Due in 1939 ............... 289,944.26
Reserve for Income Taxes and Others .... 4,074,239.17

ACCUMULATED LIABILITIES IN THE COMPANY AND SUBSIDIARY .................. $ 20,412,158.94

LOANS FROM TRUSTEES OF ANNUITY TRUST ........................................ 4,333,882.01

LONG-TERM INDEBTEDNESS:
Long Term Notes Payable .................. 40,014,800.00
Other Long-Term Debt ..................... 2,626,004.66

DEFERRED CREDITS ......................... 519,847.35

CAPITAL ACCOUNT:
Capital Stock—Authorized and Issued (9,000,000 shares, no par value) ........ 175,000,000.00
Surplus—
  Capital Surplus ................. $ 554,912.39
  Earned Surplus—
    Unappropriated ............... 120,108,671.45 120,663,583.83
TOTAL LIABILITIES .................... $363,570,276.79
BOARD OF DIRECTORS

R. L. Blaffer, Chairman

H. C. Wiess                          E. E. Townes
James Anderson                     John R. Suman
L. T. Barrow                        Hines H. Baker
Stuart A. Giraud

EXECUTIVE OFFICERS

H. C. Wiess, President

R. L. Blaffer .....................Chairman of Board and Treasurer
R. E. Townes ......................Vice President and General Counsel
James Anderson ....................Vice President
John R. Suman .....................Vice President
L. T. Barrow ......................Vice President
Jas. S. Crate .....................Secretary and Assistant Treasurer
L. H. Attwell, Jr. ..................Comptroller
R. E. Seagler ......................General Attorney

Stock transferred by the Company in Houston and by the Guaranty Trust Company in New York
This report is issued solely for the purpose of providing statistical information. It is not a representation, prospectus, or circular in respect of the stock or security of this corporation, and is not transmitted in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued, nor with any preliminary negotiation for such sale.